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THE ETHICAL BASIS OF DISTRIBUTION AND ITS APPLICATION TO TAXATION.

The consideration of questions of justice will or will not lie within the scope of economics according to our definition of that science. But the narrowest definition can hardly destroy the interest that is almost universally felt in the ethics of distribution. The most feverishly careful economist always fails to discuss the question of distribution without bringing in ethical considerations, and it is no longer regarded as possible to discuss the question of the distribution of the burdens of taxation without dealing with questions of equity and justice. The self-styled "ethical economist," however, is apt to be a sentimentalist who mistakes his sentimentalism for moral philosophy, and, probably for this reason, the self-styled "hard-headed" economist is extremely chary of ethical questions. But there is absolutely no more connection between ethics and sentimentalism than there is between mathematics or physics and sentimentalism.

Most writers who have treated the subject of justice in taxation have tried to find some single principle that will serve as a criterion of equity. The "Benefit theory," the "Equal Sacrifice theory," the "Faculty theory," and others, have served this purpose for various writers. If there is such a thing as economic justice, based on an ethical principle, it should be profitable to discover that principle, and to see whether it may not be applied to the subject of taxation. Such an attempt, if successful, would at least help to give unity to the science of economics. Since discussions on the question of justice in political economy centre largely in the subject of distribution, an examination of the nature and meaning of justice in distribution must prove useful.

The economist is by the nature of his calling predisposed toward the utilitarian system of ethics, and to the doctrine

that justice is based on expediency, or the "greatest good to the greatest number." Whether his judgment follows this predisposition or not, he must at least admit that utilitarianism is supported by very distinguished authority. Without discussing the fundamental questions relating to the nature of justice, but accepting the utilitarian definition as a starting point, let us see where a strict application of the test, "The greatest happiness of the greatest number," will land us. In making this test, the work of those who have developed the final utility theory of value will be of great assistance. In fact, the principle of the variability and satiability of wants is absolutely essential to the complete application of utilitarianism in the field of economics.

There are four proposed bases of distribution, each of which claims to represent ideal justice. (1) Absolute equality, or distribution according to "existence" (for want of a better term); (2) distribution according to wants; (3) distribution according to labor, or effort—no account to be taken of differences in ability; (4) distribution according to service.* Service may be interpreted so as to mean (*a*) the product of labor alone; (*b*) the product of labor and capital; (*c*) the product of labor, capital and land; (*d*) the product of labor and such capital and land as the individual himself acquires by his own industry, frugality and foresight, but does not inherit.

The present system is, or aims to be, distribution according to service, and service is interpreted to mean the product of labor, capital and land. The first part of this proposition is evidently not patent to all those who are now at work on the subject of distribution. Were an inhabitant of Mars to undertake the study of terrestrial economics from the popular economic literature of the day, he might very easily come to the conclusion that our system of distribution is simply a

*The term service may properly be used synonymously and interchangeably with "production." Production being the creation of utilities, it follows that the producer performs a service to society.

free and unrestrained scramble for goods.* In testing the proposition that the present system is based on service, we can not, of course, take any individual's notion as to what service is or ought to be, but what society as a whole thinks it is. The question is not whether you or I may think that a juggler or a circus clown performs a real service or not, but whether the public at large think so or not. One of this class who contributes more to the public satisfaction than a teacher, will be better paid. Even this would not prove that the public thought more of the work of jugglers and clowns as a class than it did of teachers as a class, but that between one particular teacher and one particular clown, this particular community would rather be deprived of the services of the teacher. So it is the service that the community thinks it gets from the particular land or capital in the possession of an individual which determines the amount of rent or interest which he will be able to collect. This is the aim of the present system, but, of course, it is not perfectly realized. "The mills of *man* grind slowly *and* they grind exceeding *coarse*." All our laws for the protection of property and the enforcement of contracts are for the purpose of realizing this aim: of securing to the producer the products of his industry and preventing the acquisition of wealth without the performance of an equivalent service. Even the apparent exceptions to this rule really conform to the letter of it, though they may violate its spirit. A monopoly is simply an attempt to place society in a position of dependence upon a single person or corporation for a particular form of service, and not, strictly, to get something for nothing. Economic competition is not the competition of animals and plants which prey upon one another without scruple, but competition in the direction of performing service. Competition as

*One needs only to refer to the tiresome reiteration, by benevolent reformers, of the statement that the present system is simply

"The good old way, the simple plan,
That he shall get who has the power,
And he shall keep who can."

it exists in the animal world is not tolerated in society. The latter confines competition strictly and directs it into narrow channels.

Distribution on the basis of existence deserves attention only on condition that it is assumed that wants of different individuals are equal. This would reduce it to the same basis as distribution according to wants. While it is manifestly untrue that the wants of different individuals are equal, it is doubtful if it is worth while to talk about distribution according to wants on any other assumption. It is impossible to tell what classes have the most and what classes have the least wants, so we are practically forced to assume all men to have equal wants.

The proposition to distribute the products of industry according to the amount of labor performed by the participants in production, and to measure labor quantitatively without considering differences in quality, derives its main support from the fact that it would do away with every form of "rent" or "unearned"* income. If one man with a given amount of effort, both in the form of preparatory training and present labor, is able to make two dollars a day, and another, with no more effort, is able to make ten dollars a day, eight dollars at least of the latter's income is a kind of "rent." It is due to no special merit or effort of his own, but to the fortuitous circumstance of his birth with peculiar adaptations to his surroundings. No fact is better established than the existence of "unearned" incomes from almost every source and in every conceivable form. But the precise ethical objection to allowing any form of income simply because it is "unearned" in this sense, would be difficult to state. Back of the labor basis of distribution there seems to be an idea that there is something inherently meritorious in mere labor or effort. This is akin to the doctrine

* "Unearned" is here used in the sense of not being covered by an equivalent cost. Cost, as an economic factor, and one which enters into economic calculations, is always subjective.

that labor is the cause of value, and other forms of the now somewhat antiquated cost theory of value. Not only is value not based on cost, but there seems to be no inherent merit attached to mere labor or effort. At any rate, no such merit has been shown to exist. It may be fully as hard to justify one's claim to that part of one's income which has cost a severe effort as that part which cost no effort at all and, in this sense, is "unearned." If labor is to be measured in terms of quantity alone, it may, instead of promoting happiness, positively destroy it. In accordance with the principle of "the greatest happiness to the greatest number," that kind of effort that either destroys happiness, or fails to promote it, ought not to be rewarded because such a reward would be a special inducement to continue that kind of effort. Of those forms of effort which do contribute toward happiness, not all contribute equally. It is consistent with the principle of utility that those who do the kind of work that society wants most should receive the highest reward. But this is not because of any special merit that inheres in that kind of work, but because society cannot get as much of that work done as it wants done without offering a special inducement in the form of a higher reward. There are some men so well fitted for the kind of work that commands high wages that they would prefer that kind of work, even if the reward were no greater than in other occupations. There are others whom the trouble and expense of preparation would deter from entering these occupations unless special inducements were offered. It is worth more to society to have a man take up a kind of work where workers are very much needed than to take up a kind where the demand is already well supplied. Consequently society secures a greater amount of happiness by paying special wages for special kinds of work.

If we could leave out of account the difficulty of administering such a system, the proposition to distribute products according to wants would have much to commend it. Other

things being equal, the goods in existence would yield a greater amount of utility if the last dollar of every man's income furnished its owner the same amount of utility. If the last dollar of A's income yields him less satisfaction than the last dollar of B's, the sum of the satisfaction of both would be increased if this dollar were taken from B and given to A. A would gain more than B would lose. This proposition has as little sentiment and as sound logic as the proposition that a quantity is increased by adding more to it than is taken away from it. But it does not follow that distribution according to wants is the ideal system. Our proposition assumes a given quantity of goods in the possession of society at a given time. But the trouble is that, until men become altruists, society cannot secure the production of so many goods, and of so good a quality on this basis as under the present system. From the standpoint of production, therefore, the same objection may be brought against the proposition to distribute on the basis of wants as on the basis of labor. An objection which perhaps amounts to about the same thing can be made still more effectually from the standpoint of consumption.

In order that the goods in existence at any given time shall yield the greatest amount of satisfaction, each consumer must divide his expenditure among different articles in such a manner, and in such proportions that the final utility of each apportionment shall be equal to that of every other.* If a consumer spends so much for bread and so little for music that the last dime spent for music gives him more satisfaction than the last dime spent for bread, then his consumption is not harmonious, and he would be better off if he would spend less for bread and more for music. This proposition is also equivalent to saying that a quantity is increased by adding more to it than is taken from it. Now if each consumer is to be left free to spend his income in

* For a fuller discussion consult Dr. Patten's article "The Scope of Political Economy," *Yale Review*, Vol. ii, p. 264.

such a way, and to divide his expenditure among different articles in such proportions as will yield him the largest amount of utility, he must of necessity reward some producers more highly than others. This will involve a difference of incomes bearing no relation to the wants of those receiving them. Here, then, is an economic dilemma, we must sacrifice either the most harmonious consumption by the individual or the most perfect equilibrium between the incomes of different individuals, which would be distribution according to wants. Before this can be catalogued among the economic harmonies it must be shown that when the most harmonious consumption by the individual results in rewarding one producer more highly than another, it so happens that the one receiving the highest reward is the one with the highest wants. We would be in a fair way toward such a harmony, so far as wages are concerned at any rate, if it could be shown that the standard of living determines all classes of wages. But this position does not seem to be tenable. In fact, nothing but universal altruism is capable of bringing about the desired harmony. When every man can derive more pleasure from the taste of food upon the palate of a neighbor hungrier than himself, than upon his own, this and all other questions concerning distribution will be solved. This form of altruism, or higher egoism as it may well be called, must meet with the unqualified approval of the consistent economist and utilitarian.

The system of distribution according to service applies the same principle to social conditions that prevails under isolated or unsocial conditions. The isolated producer gets the things which he produces, and produces, so far as conditions will allow, the things which he wants. Under social conditions, where exchange and division of labor become the order, the producer does not produce the things he wants nor want the things he produces. The abstraction which we call value then enters into every man's calculation. He then tries to produce as much value as possible;

in other words, he no longer labors for the direct satisfaction of his own wants, but directly for the satisfaction of the wants of all the members of society. The greater the number of wants he can satisfy the greater the value of his product. Under conditions of isolation, the functions of distribution are included in production. Under social conditions distribution is still a matter of production, but it is a matter of the production of value and not things. Since the production of value is the direct satisfaction of the wants of the community, it seems proper to speak of the production of value as service. Under this system, each producer gets just about what he is worth to the community. This is perhaps most easily measured by estimating what the community would lose if he were to stop work. The weakness of the scheme of the socialist to socialize everything, is that it destroys the vital connection between the producer and the consumer and attempts to substitute a mechanical one. Some authority must assign men to their occupations. It is scarcely to be hoped that such a system could result so well as a system of voluntary selection. If each individual were left to choose his own occupation with the understanding that he receive the same reward in one as in another, there is no assurance that so many would not crowd into the production of one commodity as to make it a positive nuisance, and so few into the production of another as to make it practically unattainable. Distribution according to service, or the amount of value produced, insures against this catastrophe and applies the principle of natural selection to the choice of occupations.

It will probably not be doubted that service, as here used, clearly includes the products of one's own labor. Moderate socialists admit so much, but deny that it should also be so interpreted as to include the products of capital. It is scarcely worth while to question that capital performs a service, but the question is, should the reward for this service go to private individuals? If it be admitted that capital is

of any use to society, it must also be admitted that the person who abstains from consumption in order to furnish capital performs a service as real as the one who produces anything else that society wants. Abstinence does not necessarily involve the idea of cost or sacrifice. As already pointed out, cost in itself furnishes absolutely no claim to property in the products of labor. Neither can it be said to furnish any basis for a claim to the products of capital. There is no more inherent merit in this form of sacrifice than there is in self-flagellation. It is the fact of the furnishing of capital, on the one hand, and of the performance of labor, on the other, and not the fact of cost or sacrifice that constitutes the service. The question, therefore, is not whether abstinence involves sacrifice or not, but whether society can get as much capital as it wants in any other way than by paying private individuals for saving in order to supply it. Not all labor involves sacrifice, but some does, and the more there is performed the greater becomes the sacrifice of performing it, and society cannot get as much work done as it wants done without paying for it. Not all saving involves sacrifice, but some does, and the more there is saved the greater becomes the sacrifice of saving it. For this reason society cannot get as much capital as it wants without paying for it. It is cheaper to society to use the capital saved by those who can save with the least sacrifice because by so doing the least sum total of sacrifice in the form of saving is involved and the least outlay in the form of interest is necessary to secure the saving of a sufficient amount of capital. Another reason for private capital is found in the fact that it offers a premium on the most productive employment of capital. The capital in existence at any given time will perform a greater total service if the marginal productivity of each of its multiplicity of forms is equal to that of every other. In other words, it is to the advantage of society to have new capital invested in those forms which are most productive. Private capital naturally seeks the most productive forms of

investment. Whether it always succeeds in finding them or not may possibly be open to question, but it can scarcely be claimed that public capital could find them with greater certainty. There are precisely the same economic reasons for interest that there are for wages.

It is a part of the present system to treat the products of land also as a part of the service of the owner to society and to reward him accordingly. Consistently with the principle of utility we can neither justify rent on the ground of a natural right to property in land, nor condemn it either on the ground of a natural right of all to the surface of the earth, or on the ground that it is an unearned income. As already pointed out there are other sources of unearned income. The vast income of the merchant prince is conditioned upon his proximity to a market for his ability. He must have access to a society where there is a demand for his special form of labor or his producing capacity may be no greater than that of the ditch-digger. Differences in rent are due to the fact that land can not be concentrated at the *place* of greatest productivity. Differences of wages are due to the fact that labor can not be indefinitely concentrated in the *form* of greatest productivity. An equally unearned income results in either case. There is this important difference, however, a man, not being an article of merchandise, is not capitalized according to his productivity. On the other hand, land is capitalized, and it is possible, according to most writers, to distinguish between the value of the land itself and its improvements. It is therefore possible, within certain limits, to levy a tax on land so as to cover only the value of the natural and indestructible powers of the soil, and exempt the value of improvements. If it were customary or possible to distinguish between the productive value of the native and the acquired talents of a man, it would then be possible, by the simple expedient of a single tax on the value of native or inherited talents, to appropriate all the "unearned" share of wages. There would also be precisely the same

reasons for such a tax that now exist for the single tax on land values. One would have no more repressive effect on industry and enterprise than the other. At the same time, it is a matter of no more meritorious conduct on the part of the opera singer, for example, that he inherited the qualities of lung and throat and brain that enable him to attain distinction in his profession, than it is on the part of the landlord that his land has a value over and above the value of the improvements. To tax anything that is acquired at a cost, has the effect of discouraging the acquisition of that thing, and thus represses industry. Because of our inability to distinguish between the products of native and acquired abilities it would be poor policy to attempt to level off the inequalities of nature by means of taxation. Such an attempt would discourage industry and enterprise. The objection is, therefore, one of expediency and not one based on natural right.

It may well be insisted, by the way, that, even if it were possible to appropriate to society the surplus gains from labor, there would still remain excellent reasons for allowing men the products of their own labor. In like manner President Walker* has shown many and excellent reasons for the private ownership of land even though it were possible to appropriate to society the economic rent. The effect of private ownership of land in giving stability to society and more especially, in acting as a check on population, is a subject that has scarcely yet received the attention that it deserves.

If it were a foregone conclusion that a sharp distinction between the value of land that is due to the effort of the owner and that which is due wholly to the growth of society were possible, there would be an excellent reason from the utilitarian standpoint, for a moderate application of the single tax. A tax on that portion of the value of land that is in no sense due to the effort of the owner, could have no

* "Land and its Rent." Cap. iv.

repressive effect. But it may not be so easy a thing to make this distinction as it is sometimes imagined. It was long ago seen that the improvements on a piece of land, being the products of human industry, were subject to the same laws as other forms of capital. Accordingly, improvements were placed in the category of capital, and land was given a definition in economics somewhat narrower than the one used in business. But the soil itself is quite commonly produced, and almost universally replaced and improved by culture and fertilization. It would therefore be next to impossible to distinguish, for purposes of taxation, between the products of the natural and the artificial soil. Some recent writers have placed soil also in the category of capital and defined land still more narrowly as merely, space, support and position. If position means accessibility to market or convenience to sources of utility, it is certain that even this quality is quite frequently produced by the efforts of the landowners. It may be found difficult to distinguish, for purposes of taxation, between the rent that accrues from the "position" that is produced by the effort of the landowner and that which accrues from the "position" that is the result wholly of social growth. If this difficulty is found to be insurmountable, it will be necessary to do one of three things: (1) give up the idea of the single tax; (2) show that the single tax would have beneficial effects that would clearly overbalance any repressive effects that it might have on industry and enterprise; (3) define land still more narrowly so as to include merely space and support. This would be a virtual abandonment of the idea of the single tax because rent is not paid for space and support without the attribute of position.

On the whole, it seems the part of expediency to continue the present system in so far as it allows each individual to receive the products of his own labor and also of the capital and land which he acquires by his own industry, frugality and foresight. But the question still remains open as to

whether one individual ought to have the benefit of the capital and land that were acquired not by any effort of his own but by the effort of others. In other words, even admitting that an individual ought to be allowed the benefit of his own industry, frugality and foresight even when that frugality and foresight takes the direction of investing in land, it is still worth while to ask whether each member of the community ought not to have an even start in the world, so far as objective conditions are concerned. This would correspond more nearly with all notions of fairness, but would aim a serious blow at the solidarity of the family. No such proposition as the abolition of inheritances is to be considered for a moment without a careful estimation of the value of the institution of the family. Moreover, there is no doubt that such a proceeding would seriously discourage the production and accumulation of wealth. This must remain the case so long as the desire to provide for one's family is one of the strongest motives for saving and accumulating property. There is no doubt that, with a given production of wealth, a community would secure a greater sum total of utility if every member were put on the same footing in the start, because this would secure a distribution more nearly in accordance with the wants of the different members. But the difficulty would be to secure the same efficiency of production. The existence of a large fund of capital is an absolute essential to efficient production. At the present time one of the principal motives for the accumulation of capital is the feeling of responsibility for the economic welfare of those whom one has brought into existence. To prevent this feeling of responsibility from operating in this way would, unless men undergo a psychological change, not only reduce the accumulation of capital but also remove the most powerful of the rational restraints upon the increase of population. There would thus be less to produce with, and more consumers. But these arguments however weighty when applied to direct inheritances, lose most of their weight when

applied to collateral inheritances. The total absorption of collateral inheritances could affect the accumulation of capital very little and the increase of population not at all. Therefore it would seem that the present laws relating to collateral inheritances form the one feature of the present system of distribution that has nearly outlived its period of usefulness.

Some confusion has entered into discussions of justice in political economy through a failure to distinguish between the circumstances under which a public body and a private individual work. To this difference of circumstances may be reduced the whole of the *so-called* difference between economic and ethical justice, or between public and private obligation. There are not two kinds of justice, and the same principle determines both public and private obligation. The same general object is to be sought and the same principle applied as a test of justice, whether in connection with public or private, ethical or economic actions. That test is the principle of utility. But there are limitations upon the powers and faculties, and peculiarities in the functions, of public bodies in general which forbid the state to pursue the same methods in promoting happiness that are open to, and even obligatory on, the individual. It is quite true that the sum total of happiness would be promoted if every man would produce according to his ability and consume according to his needs. As a rule of conduct or private obligation, this socialistic ideal can be scientifically maintained. But it is the height of folly to maintain that it is the duty of the state to enforce that ideal upon its members. Duty can never transcend ability, and it is utterly beyond the ability of any state to enforce such a system. If it were possible, or even as nearly possible, to compel men to produce according to their ability and consume according to their needs as it is to compel them to keep the peace or to pay taxes, it would be then as much a part of the duty of the state, and socialism would come in spite of us. But only omniscience can tell whether a man acts according to

such a system or not, and omnipotence alone could enforce such action on the part of the unwilling. Even more fallacious than socialism is the position of the man who claims to have satisfied the demands of justice when he has complied with the laws of the state, even when those laws accomplish the aim of securing distribution according to service. He has only satisfied that small part of the demands of justice which the limited power and knowledge of the state enable it to compel by physical force. Therefore, let it be clearly understood that the system of distribution according to service is the ideal system only from the standpoint of the duties of the public authorities. The circumstances under which the state is compelled, by its very nature, to work enable it to do no more. By securing this system of distribution the state does its utmost to promote happiness so far as happiness is dependent on economic forces.

The effort to secure distribution according to service, or production, represents the limit of the power and duty of the state in such matters. But beyond this limit lies the field of the educator and the religious and moral teacher. Though it would have a disastrous effect, if the state should attempt to enforce universal benevolence, yet only beneficent results could follow if all men were voluntarily to become wisely benevolent. If the state were to refuse to allow interest to the owner of capital, those who are now only induced to save by the hope of interest would then refuse to do so, and the community would lose the use of a certain amount of capital. But the individual may be encouraged to voluntarily lend his capital without interest in cases where such a policy would increase the sum total of happiness more than *some other form of benevolence*. The state may even lend its aid to such education as will promote this spirit of benevolence. It may go further and supplement the efforts of educators to elevate the tastes of the people so as to increase the desires of the people for some things and diminish the desires for

others. It may do so simply on the ground that men who acquire a taste for rational enjoyment have more happiness in the long run. Men swayed by passions and appetites do not choose necessarily the things that contribute most powerfully to their happiness.

The socialistic plan to substitute "social esteem" for other kinds of payment in order to induce men to enter the most productive occupations, is weak in that it does not show satisfactorily that social esteem would operate more powerfully under the socialistic régime than it does now. If the difference in the esteem in which a skilled and an unskilled occupation are held were sufficient to counterbalance the difference in the difficulty of acquiring the requisite skill, and the difference in disagreeableness, there would be no difference in the money wages of the two occupations. Now if social esteem can operate so powerfully under the present system as the socialist imagines it would under his system—and we see no reason why it should not—then his ideal would be realized without changing a single essential feature of the present system.

Up to this point the discussion has been wholly preliminary to the question of justice in taxation. It has seemed necessary to examine carefully the grounds of the rights to shares in the products of industry before deciding what is the just distribution of the burdens of taxation. Of vital importance to this question is the main point of the foregoing discussion, viz., that the principle of utility justifies every essential feature of the present system of distribution. It is not therefore necessary to concoct any doctrine of natural rights. Neither ought it to be necessary to set up any theory of rights and obligations in the matter of taxation except such as are based on the principle of utility. If it is the purpose of the state in the exercise of that form of social control which establishes the existing system of distribution, to promote the greatest happiness to the greatest number, ought not its policy in the matter of taxation to be regulated

by the same general purpose? Since taxation may, in itself, be fairly regarded as an evil, ought it not to interfere as little as possible with the general happiness? In other words, ought not the test of justice in taxation to be *the least evil to the least number*?

The evils of taxation are of two kinds: (1) the sacrifice to the one who pays the tax; (2) the repressive effect which a tax may have on industry and enterprise. Therefore in accordance with the principle of utility, the burdens of taxation should be so distributed that the sum of these two forms of evil should be as small as possible.

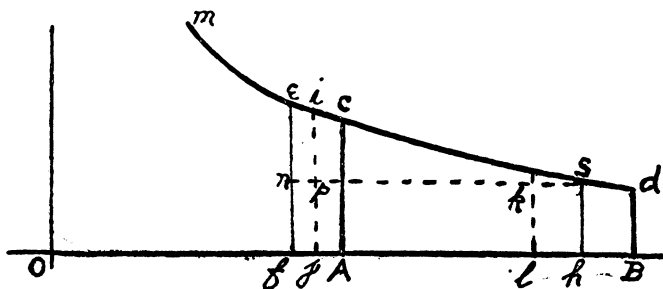
The minimum of repression is secured by so distributing taxes that an equal sacrifice is required of all. No one is discouraged from the acquisition of wealth or a large income, or from entering this or that occupation, if there is an equal sacrifice involved in every case. If we consider only the repressive effects we should arrive at the conclusion that equality of sacrifice involves the least evil to the least number. But if, on the other hand, we were to consider only the sacrifice on the part of those who pay the taxes we should find that not equality of sacrifice, but something entirely different, would produce the least evil to the least number. This point seems to have been overlooked by John Stuart Mill, for he was too good a utilitarian to have adopted equality of sacrifice as the criterion of justice had he not supposed it to be in strict conformity with the principle of utility. To this his own words testify: "For what reason ought equality to be the rule in matters of taxation? For the reason, that it ought to be so in all affairs of government. As a government ought to make no distinction of persons or classes in the strength of their claims on it, whatever sacrifice it requires from them should be made to bear as nearly as possible with the same pressure upon all, *which, it must be observed, is the mode by which least sacrifice is occasioned on the whole.* If any one bears less than his fair share of the burden, some other person must suffer

more than his share, and the alleviation to the one is not, *cæteris paribus*, so great a good to him, as the increased pressure upon another is an evil.”*

Now, it is susceptible of pretty definite proof that equality of sacrifice does not occasion the least sacrifice on the whole. If a dollar is worth half as much to B who has \$4000 a year as it is to A who has \$2000, equality of sacrifice would be reached by proportional taxation. If A is taxed \$50, B should be taxed \$100. Now, the simple fact that a dollar costs B less sacrifice than it does A would prove that the whole \$150 tax would occasion less sacrifice on the whole if A were taxed one dollar less and B one dollar more. This could be applied again dollar by dollar till we reach the point where a dollar is worth as much to one as to the other. But before this point is reached we shall have exempted A altogether and made B pay the whole \$150 tax.†

* Principles of Political Economy. Book v, Cap. ii., sec. 2. The italics are mine.

† This may be illustrated by the accompanying diagram. Let the amount of A's income be represented by the line OA , and B's by the line OB . Let the amount of A's utility curve of both incomes. Then the final utility of A's income will be represented by cA , and of B's by dB . Let hB represent B's tax of \$100, and fA , A's tax of \$50. Each will bear the same amount of sacrifice if the surface $ecfA$ is equal to the surface $sdhB$. But that a smaller total sacrifice would result if A were relieved of a portion of his tax, and B's tax were increased to a like amount may



be illustrated as follows: Suppose that \$25 of A's tax, represented by fj should be removed and added to B's tax at lh . This would reduce the sum of both surfaces by the amount that $efjf$ exceeds $kslh$, or by the amount of $einp$. As each dollar that is added to a man's tax costs him a greater sacrifice than the preceding, it may not be improper to speak of the sacrifice involved in the payment of the last dollar of the tax as the final sacrifice. From the foregoing illustration it will appear that not equality of sacrifice, but equality of "final sacrifice" secures the least sacrifice on the whole.

In fact, if the minimum of repression is the one thing to be desired, we should have to adopt a system so rapidly progressive as to produce something like the following result. The wealthiest man in the community would be taxed sufficiently to reduce his income and raise its final utility to a level with that of the next wealthiest man. Then these two would have to be taxed so as to raise the final utility of both their incomes to a level with that of the third, and so on till enough incomes were brought under the tax to raise enough revenue. All incomes not reached by this method of procedure would be exempted. Since the state must collect taxes, and since taxes must interfere somewhat with incomes, it may be found expedient to retain the present system of distribution as a system, but to take wants into consideration in seeking the most equitable distribution of the burdens of taxation. The minimum amount of repression is secured by imposing an equal sacrifice on all members of the community, but the minimum amount of sacrifice is secured by collecting the whole tax from those few incomes which have the lowest final utility. No rational writer advocates the latter plan exclusively, but many rational writers do advocate the former plan. Yet it is not beyond dispute that the former plan ought to be followed exclusively.

A general tax, *i. e.*, a tax that is not local nor on special industries, can only repress industry or enterprise when it reduces some incomes below the cost of acquiring them. In other words, a tax on any form of "rent" or income not covered by a cost, can have no repressive effect on industry. A tax on pure economic rent of land, if such a sharp distinction could be drawn between land and improvements as is usually supposed, could have no repressive effect. But even if the distinction can not be sharply drawn and even if we include the soil under the definition of land, yet a land tax would have a less repressive effect than a tax on ordinary capital because the element of cost has a much more

important place in the production of capital. On the same principle, a tax on an income that is largely due to natural or inherited abilities would have less repression than a tax on incomes that are due mainly to acquired talents, and a tax on incomes derived from inherited capital would be less repressive than one on incomes derived from capital acquired by the present owner. It seems probable, indeed almost certain, that in large incomes the element of "rent," in one form or another, enters more largely than in small. That is, large incomes uniformly afford a larger surplus over and above the cost of acquiring them than small ones. Large incomes are more often due to the possession of special talents, or ground rents, or patents and other forms of monopoly, or inherited property than small ones. If this be true, it would seem that a moderate application of the principle of requiring a larger sacrifice from those with large incomes would not only reduce the total sacrifice but would have very little repressive effect. But the repression would become more and more violent with each extension of the process.

Though there is no way of proving it definitely, it is pretty generally admitted that proportional taxation comes more nearly requiring an equal sacrifice from all than any other form. If this be granted, a progressive tax would reduce the total sacrifice of the tax, but if the rate of progression is carried too far it would repress industry and enterprise. It would discourage men from trying to produce to their full capacity and thus injure the whole community. But, for the reasons already mentioned, this repression would scarcely be appreciable with a moderate application of the principle of progression. It would seem, therefore, that a moderately progressive tax would conform more nearly with the principle of the least evil to the least number than any other method of distributing the burdens of taxation. There is no way of determining what constitutes a moderate rate of progression. That must always be a matter for the exercise of judgment.

It is the purpose of this paper to insist; (1) that the true criterion of justice in the distribution of the burdens of taxation is the least evil to the least number; (2) that the evils of taxation are twofold,—the sacrifice to those who pay the taxes, and the repression of industry and enterprise which they occasion; (3) that the minimum of repression is secured by equality of sacrifice and the minimum of total sacrifice by an extreme form of progressive taxation resulting in great inequalities of sacrifice; (4) that neither repression alone nor sacrifice alone, but both, are to be considered; and (5) that the probabilities are that a consideration of both forms of evil would lead to the adoption of a moderately progressive system of taxation.

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